

Washington State Auditor's Office
Accountability Audit Report

City of Napavine
Lewis County

Report Date
January 19, 2010

Report No. 1003213

Issue Date
March 22, 2010



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

March 22, 2010

Council
City of Napavine
Napavine, Washington

Report on Accountability

We appreciate the opportunity to work in cooperation with your City to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the City of Napavine's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

City of Napavine
Lewis County
January 19, 2010

| | |
|--|---|
| Audit Summary | 1 |
| Related Reports | 2 |
| Description of the City | 3 |
| Schedule of Audit Findings and Responses | 5 |

Audit Summary

**City of Napavine
Lewis County
December 11, 2010**

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the City of Napavine for January 1, 2007, through December 31, 2008.

We evaluated internal controls and performed audit procedures on the activities of the City. We also determined whether the City complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit:

- General revenue
- Open Public Meetings Act
- Financial condition
- Utility revenue and cash receipting
- Payroll
- Budget compliance
- Municipal Court
- Safeguarding of assets

RESULTS

In most areas, the City complied with state laws and regulations and its own policies and procedures.

However, we identified a condition significant enough to report as a finding:

- The City does not have adequate documentation to support charges to its restricted funds.

We also noted certain matters that we communicated to City Management. We appreciate the City's commitment to resolving those matters.

Related Reports

**City of Napavine
Lewis County
December 11, 2010**

FINANCIAL

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements.

Description of the City

**City of Napavine
Lewis County
December 11, 2010**

ABOUT THE CITY

The City of Napavine serves more than 1,690 citizens in Lewis County. The City provides a full range of services including police, planning and economic development, street maintenance and construction, sewer and water and general administrative services.

A mayor-council form of government administers the City with an elected, five-member Council and an independently elected Mayor. The City had approximately 24 employees during the audit period. For fiscal years 2007 and 2008, the City operated on annual budgets of approximately \$5 million and \$3.75 million, respectively.

ELECTED OFFICIALS

These officials served during the audit period:

| | |
|------------------|---|
| Mayor | Robert McNelly (through December 2007) Nick Bozarth (effective January of 2008) |
| Council Members: | |
| Position 1 | Eileen Sherlock (through February 2007) Paula Sandirk (effective March 2007 through December 2007) Larry Stafford (effective January 2008) |
| Position 2 | Kenneth Williams |
| Position 3 | John Sayers |
| Position 4 | Martin Hysong (through October 2008) Paula Sandirk (effective November 2008) |
| Position 5 | Leslie Metcalf (through December 2007) Dave Williams (effective January 2008) |

APPOINTED OFFICIALS

| | |
|----------------------|--|
| City Clerk/Treasurer | Laverne Haslett (through September 2007, reappointed September 2008) Robin Saline (effective October 2007 through September 2008) |
|----------------------|--|

CITY CONTACT INFORMATION

Address: City of Napavine
P.O. Box 810
Napavine, WA 98565

Phone: (360) 262-3547

Web site: <http://www.cityofnapavine.com/>

AUDIT HISTORY

We typically audit the City every two years with an exception of the 2006 audit due to the requirement to have a single audit. The prior five audits had been free of findings. The current audit will include one finding related to the use of restricted funds.

Schedule of Audit Findings and Responses

City of Napavine Lewis County January 1, 2007 through December 31, 2008

- 1. The City does not have adequate documentation to support charges to its restricted funds.**

Description of Condition

The water and sewer funds had a combined operating budget in 2007 and 2008 of approximately \$880,000 and \$1.25 million, respectively. The City provides water and sewer utilities to approximately 575 customers. In 2007 and 2008, the City billed for services approximately \$580,000 and \$675,000, respectively. The revenue collected is for the support and maintenance of the City's water and sewer systems.

The City paid approximately \$210,000 in 2007 and \$300,000 in 2008 in payroll costs out of the water and sewer funds. Employees that work in the Police Department and Municipal Court do not have any payroll costs allocated to the water and sewer funds. However, all other employees, such as the City Clerk, Deputy Clerk, public works employees and the Building Inspector had at least 50 percent of their payroll costs attributed to these funds, with the remaining amount to the current expense fund, which includes community development and the street fund.

The City's procedure is to allocate payroll costs to funds according to their budgeted expenditures. This gives the appearance it could be using restricted funds for general government purposes. The City does not retain documentation, such as timesheets, to support that they are in compliance with RCW 35.33.123, which requires the percentage of payroll allocated to the water and sewer funds be based on the value of such services.

In addition, the City allocated \$10,500 of the \$26,250, or 40 percent of the cost for the city hall lease to the water and sewer funds. The City has no documentation to support their allocation of the expense. The City made payments totaling \$19,373 for costs of the new city hall building exclusively from the water and sewer funds. These purchases should have been allocated to other funds. The purchases include: an appraisal of the building, installation of phones, installation of electrical wiring and outlets, as well as the installation of a flagpole.

Cause of Condition

During the audit period, the City experienced three different turnovers in the City Clerk's position resulting in inconsistency and inexperience.

Additionally, the City has not been cutting expenses in relation to declining revenue. Instead it has been budgeting more expenditures to restricted funds.

Effect of Condition

If the City were to charge the appropriate amount of payroll to the water/sewer funds, it may negatively impact its financial condition in the General Fund. This could result in the City's inability to meet financial obligations, as well as having one fund benefiting from another.

Recommendation

We recommend the City ensure restricted funds are only used for allowable purposes and that adequate support be retained to support restricted fund use.

We also recommend the City consider the impact of this issue on its financial condition and take necessary steps to cut expenses if necessary.

City's Response

The City of Napavine is committed to maintaining procedures and processes to ensure complete accountability and proper appropriations of city resources. The City agrees with the findings by the Washington State Auditor's Office.

The City has evaluated its water and sewer rates and adjusted them appropriately last year in order to meet the cost of expenditures. The City has also implemented documentation procedures, per the Auditor's recommendations, to meet the requirements of justifying salary costs for each respective department. The City does maintain timesheets and implemented a time clock in 2009, however the Auditor's Office has requested additional documentation to support specific time each employee works in each department. For example, the City has public works employees that perform work on sewer, water and street projects and maintenance at any given time. Documenting the constantly changing dynamics of work allocated between specific departments is challenging.

In addition, the City allocated costs for the new city hall lease to water and sewer funds. Similar costs were also allocated from other departments as well. The water and sewer departments are located within the new city hall building and therefore share some of the costs. The City has implemented a cost allocation based on square footage used by each department to better reflect the costs to each fund and fulfill the documentation requirements of the Auditor's Office.

Finally, the City has worked diligently to reduce expenditures in light of the economic conditions felt throughout the nation. This will be an ongoing focus to ensure that we are working within the established budget passed by the elected officials of the City and to maintain the most efficient use of resources.

Auditor's Remarks

We will review the status of the finding during the City's next audit.

Applicable Laws and Regulations

RCW 35.33.123 Administration, oversight, or supervision of utility--Reimbursement from utility budget authorized.

Whenever any city or town apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city or town, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's or town's current expense fund for the value of such services.



ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Jim Brittain, CPA
Jan Jutte, CPA, CGFM
Ivan Dansereau
Mike Murphy
Mindy Chambers
Mary Leider
(360) 902-0370
(866) 902-3900

Web Site
Subscription Service

www.sao.wa.gov
<https://www.sao.wa.gov/EN/News/Subscriptions/>